

SHILOH FALLS UTILITIES, INC.

P. O. BOX 1027
SAVANNAH, TENNESSEE 38372-1027

PHONE (731) 928-8088 FAX (731) 926-2425

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T.R.A. DOCKET ROOM

July 14, 2003

Ms. Deborah Taylor Tate
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: Docket # 02-00289 – Compliance Audit of Shiloh Falls Utilities, Inc.

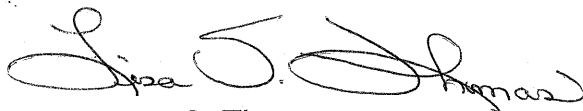
Dear Ms. Tate:

Please place into the official docket file the enclosed information. This information are changes made in regard to the compliance audit of Shiloh Falls Utilities, Inc.

Should you have any questions or need any additional information, please do not hesitate to contact me.

Very truly yours,

SHILOH FALLS UTILITIES, INC.



By: Lisa S. Thomas
President

enclosures

VI. AUDIT FINDINGS

FINDING # 1:

Exception

The Company does not keep its books in accordance with the Uniform System of Accounts.

Discussion

TRA Rule 1220-4-1-.11(1)(g) for Class A, B, and C water companies requires utilities to follow the Uniform System of Accounts (USOA) as adopted and amended by the National Association of Regulatory Utility Commissioners (NARUC). This uniform record keeping insures the integrity, reliability and comparability among similar companies of financial data contained in financial reports submitted to the Authority. It provides the TRA one of its most useful regulatory tools for establishing just and reasonable rates. We noted the following exceptions to the USOA:

- a. The Company's chart of accounts does not comply with the USOA.
- b. Many entries in the Company's books are not kept "in such a manner to support fully the facts pertaining to such entries."¹

This finding has no immediate effect on rates that the company is authorized to charge.

Recommendation

Staff recommends that the Company make the necessary changes in its accounting methods and procedures to comply with the Uniform System of Accounts for Class C Wastewater Utilities, beginning with calendar year 2003. The Company should also provide Staff with evidence that the changes have been made no later than thirty (30) days after the Directors' approval of this finding.

Company Response

THE COMPANY HAS CHANGED ITS RECORD REPORTING AND RECORD KEEPING TO CONFORM WITH THE UNIFORM SYSTEM OF ACCOUNTS FOR CLASS C WASTEWATER UTILITIES.

¹ National Association of Regulatory Utility Commissioners "1996 Uniform System of Accounts for Class C Wastewater Utilities", Accounting Instructions, page 8, section 2., paragraph B.

SHILOH FALLS UTILITIES, INC.
GENERAL LEDGER
CHART OF ACCOUNTS

101	UTILITY PLANT IN SERVICE
353	LAND
356	SEWER PLANT
108	ACCUMULATED DEPRECIATION OF UTILITY PLANT IN SERVICE
131	CASH
141	CUSTOMER ACCOUNTS RECEIVABLE
201	COMMON STOCK
211	PAID-IN CAPITAL
215	RETAINED EARNINGS
231	ACCOUNTS PAYABLE
232	NOTES PAYABLE
235	CUSTOMER DEPOSITS
236	ACCRUED TAXES
237	ACCRUED INTEREST
241	MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES
271	CONTRIBUTIONS IN AID OF CONSTRUCTION
272	ACCUMULATED AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION
400	OPERATING REVENUES
522.10	RESIDENTIAL REVENUES
522.15	RESIDENTIAL REVENUES - TAP FEES
522.20	COMMERCIAL REVENUES
522.25	COMMERCIAL REVENUES - TAP FEES
401	OPERATING EXPENSES
701	SALARIES
711	SLUDGE REMOVAL EXPENSE
715	PURCHASED POWER
718	CHEMICALS
720	MATERIALS AND SUPPLIES
725	REPAIRS
730	CONTRACTED SERVICES - BILLING
731	CONTRACTED SERVICES - PROFESSIONAL
735	CONTRACTED SERVICES - TESTING
736	CONTRACTED SERVICES - OTHER
740	RENTS
755	INSURANCE
403	DEPRECIATION
407	AMORTIZATION
408	TAXES OTHER THAN INCOME
409	INCOME TAXES
421	NONUTILITY INCOME
426	NONUTILITY EXPENSE
427	INTEREST EXPENSE

FINDING # 2:

Exception

The Company is improperly recording revenues & expenses related to certain non-utility services.

Discussion:

During an examination of the monthly customer bills, Staff discovered that Shiloh is charging some customers \$5.00 per month for repairs and maintenance of jointly owned grinder pumps. The grinder pumps are customer owned. However, since some building lots cannot support a separate grinder pump, several property owners must share a grinder pump. To facilitate the repair of these shared pumps, the Company provides this service for a monthly fee. Shiloh records the related transactions as utility revenues and expenses.

Shiloh is also acting as the middleman for the installation of customer owned wastewater equipment that would be normally installed by the developer at the time a house is built. The company does not perform this service itself. It subcontracts the work out to other parties and pays for the work up front. The customers then reimburse Shiloh for the actual cost of installation. Staff discovered that Shiloh is also recording these transactions as utility revenues and expenses.

The proper accounting treatment for these transactions would be to record as non-utility items. Customer payments should be recorded as non-utility income (NARUC Account No. 421) and the repair costs of the shared grinder pumps should be recorded as non-utility expenses (NARUC Account No. 426). Since these costs are associated with the sharing of grinder pumps that are not part of the utility's assets, the expenses incurred by Shiloh would not be considered utility related. Staff would like to point out to the utility that potentially no cost recovery could be made in providing this non-utility related service and that the shareholders would bear the risk of any losses.

Recommendation:

Shiloh should record all revenues and costs associated with the above transactions as non-utility items. Shiloh should also provide Staff with evidence that the changes have been made no later than thirty (30) days after the Director's approval of this finding.

Company Response:

THE COMPANY HAS DISCONTINUED MONTHLY \$5.00 MAINTENANCE FEE.
THE COMPANY HAS ALSO DISCONTINUED IN ACQUIRING AND INSTALLING
WASTEWATER EQUIPMENT FOR CUSTOMERS.

04/03/2000

FINDING # 3:

Exception:

The Company is placing billing caps on customer bills without prior approval from this Authority.

Discussion:

Staff discovered during a sampling of the customer bills that the management made the decision to cap the amount that a customer would pay for service. The cap was set at 10,000 gallons of usage per month. No approval was obtained from this Authority for the capping of customers' bills.

Recommendation:

Shiloh should cease the practice of capping customer bills immediately and seek approval from this Authority for such a business practice.

Company Response:

THE COMPANY HAS CHANGED ITS BILLING METHODS TO
CONFORM WITH THE MAY 20, 1996 SETTLEMENT AGREEMENT.

SHILOH FALLS UTILITIES, INC.

P. O. BOX 1027

SAVANNAH, TENNESSEE 38372-1027

PHONE (731) 925-8088 FAX (731) 926-2425

October 28, 2002

TO THE CUSTOMERS OF SHILOH FALLS UTILITIES, INC.:

Recent developments have necessitated changes at Shiloh Falls Utilities, Inc.; changes which will improve the quality of service and the ease with which you may contact us.

There is a new phone number for Shiloh Falls Utilities, Inc. That number is (731) 925-8088 which will be answered by answering service taking your information and relaying it to the appropriate party. This service will be available from 8:00 a.m. to 5:00 p.m., Monday thru Saturday with an answering machine for after-hours and Sunday calls. Should you have an emergency outside normal business hours, the answering machine will give an emergency number to call. Otherwise, you may leave a message and your call will be returned the following day.

Shiloh Falls Utilities, Inc. has a new mailing address: P. O. Box 1027, Savannah, Tennessee 38372-1027. All future payments and correspondence should be sent to this address.

New management is in place to upgrade and maintain the waste water treatment plant. Mr. Virgil Morris, head of the Savannah Utility Department, has agreed to work with us. His knowledge and expertise will prove to be a great asset to the facility.

There will be changes in the company's billing which should not affect the majority of our customers. We have been advised by the Tennessee Regulatory Authority that our charter does not permit a cap on billing for sewage treatment. Your future bill of \$8.90 will provide treatment for approximately 2,400 gallons of waste water. After that, you will be billed \$3.71 for each 1,000 gallons of water used. The current cap at 10,000 gallons no longer exists.

If you have any questions regarding any changes, please contact me at the above address or phone number. It is our desire to put these changes in place with as little disruption as possible. Your assistance in accomplishing this is greatly appreciated.

Sincerely,

SHILOH FALLS UTILITIES, INC.

Lisa S. Thomas

FINDING # 4:

Exception:

The Company did not record \$193,881 as a credit to a contributed capital account as ordered in the TPSC's May 20, 1996 Order in Docket No. 95-03948.

Discussion:

In Docket No. 95-03948, by Order dated May 20, 1996, Shiloh was ordered to record \$193,881 (half of the gross plant in service) as a credit to a contributed capital account in accordance with USOA. During an examination of the Company's general ledger, Staff discovered that the Company did not record the plant amounts as required in the above docket.

The Company actually recorded \$298,639.79 in initial plant costs. The Order stated that an entry for \$193,881 should be made to a contributed capital account which was determined by the TPSC to be half of the gross plant in service. This would indicate a beginning total gross plant balance of \$387,762 (\$193,881 x 2).

The amount of the adjustment necessary to correctly state the beginning balance of the utility's net plant is a \$89,123 (\$387,762 minus \$298,639) debit to Utility Plant in Service. The accumulated depreciation account should be adjusted to reflect the proper amount of depreciation expense since the above Order was issued. Also, a credit entry in the amount of \$193,881 to USOA Account No. 271 "Contributions In Aid of Construction" is necessary to satisfy the terms of the Order issued in Docket No. 95-03948.

The Company also recorded \$181,954.18 as a debit and credit, respectively, to general ledger accounts "Contributed Capital" and "USOA Owners Equity Adjust". This was not proper accounting treatment for ratemaking purposes. The Company should make the adjusting entries necessary to remove these entries.

Recommendation:

Shiloh should conform to the above Order immediately and make the necessary accounting entries.

Company Response:

THE COMPANY WILL CONFORM TO THE ORDER AND MAKE ALL NECESSARY ACCOUNTING ENTRIES.

A/C		12/31/01 BALANCE	ADJUSTMENTS		ADJUSTED BALANCE
			DR	CR	
101	UTILITY PLANT IN SERVICE	282,908.36 ②	89,122.21		372,030.57
353	LAND	81,000.00			81,000.00
108	ACCUMULATED DEPRECIATION	(53,874.04)		⑧ 14,890.98	(68,765.02)
131	CASH IN BANK	<u>53.43</u>			<u>53.43</u>
		<u>310,087.75</u>			<u>384,318.98</u>
241	MISC. CURRENT LIABILITIES	9,325.00			9,325.00
232	NOTES PAYABLE	324,184.04 ⑦	324,184.04		-
236	ACCRUED TAXES	(718.04)			(718.04)
201	COMMON STOCK ISSUED	1,000.00			1,000.00
211	OTHER PAID-IN CAPITAL	181,954.18 ②	181,954.18 ①	324,184.04	324,184.04
	USOA OWNERS EQUITY ADJ	(181,954.18)		② 181,954.18	-
215	RETAINED EARNINGS	(23,703.25) ④	14,890.98 ⑤	38,776.20	(104,576.82)
		③ 104,758.79			
271	CONTRIB. IN AID OF CONST.			③ 193,881.00	193,881.00
272	ACC AMORT OF CONT IN AID OF C	-	⑤ 38,776.20	-	(38,776.20)
		<u>310,087.75</u>	<u>753,686.40</u>	<u>753,686.40</u>	<u>384,318.98</u>

SHILOH FALLS UTILITIES
ADJUSTING ENTRIES
12-31-01

1	2	3	4	5	6	7
A/C		① FINDING #5		DR		CR
232	NOTES PAYABLE			324,184.01		
211	OTHER PAID-IN CAPITAL					324,184.01
	TO RECLASSIFY ADVANCES FROM STOCKHOLDERS					
	TO OTHER PAID-IN CAPITAL (RE: TRA FINDING #5)					
		② FINDING #4				
211	OTHER PAID-IN CAPITAL			181,954.18		
	USOA OWNERS EQUITY ACCT					181,954.18
	TO REMOVE AMOUNTS RECORDED TO ABOVE ACCOUNTS					
	(RE: TRA FINDING #4)					
		③ FINDING #4				
101	UTILITY PLANT IN SERVICE			89,122.21		
271	CONTRIBUTIONS IN AID OF CONSTRUCTION					193,881.00
215	RETAINED EARNINGS			104,758.79		
	TO RECORD AMOUNT OF \$193,881 AS A CREDIT TO					
	CONTRIBUTED CAPITAL PER TSL 5-20-96 ORDER					
	(RE: TRA FINDING #4) (PER BIRTH PLAN 4-30-03)					
		④				
215	RETAINED EARNINGS			14,890.98		
108	ACCUMULATED DEPRECIATION					14,890.98
	TO ADJUST ACCUMULATED DEPRECIATION @ 12-31-01					
		⑤				
272	ACCUMULATED AMORTIZATION OF CONT. IN AID OF CONSTRUCTION			38,776.20		
215	RETAINED EARNINGS					38,776.20
	TO ADJUST ACCUMULATED AMORTIZATION OF CONTRIBUTIONS					
	IN AID OF CONSTRUCTION @ 12-31-01					

FINDING # 5:

Exception:

The Company has not obtained Authority approval for a loan as required by T. C. A. § 65-4-109.

Discussion:

Shiloh recorded a loan of \$324,184.04 at the end of 2001 from a related company, SPD Co., LLC ("SPD"). Shiloh, as evidenced by its ledgers, has not attempted to repay the loan. This would suggest that the loan amount is actually an investment made by Shiloh's shareholders.

If this assumption is correct, then the Company should make a credit entry to USOA Account No. 211-Other paid in Capital and a debit entry to USOA Account No. 232-Notes Payable to remove the amount as a liability.

However, if the amount is actually a loan and has a repayment period of longer than one year, the Company is required by T. C. A. §65-4-109 to petition this Authority for approval of the loan.

Recommendation:

If the Company maintains that the amount recorded as a note payable is a loan, Shiloh should seek approval for the loan. Otherwise, the Company should make the above described accounting entries to restate the recorded amount.

Company Response:

THE COMPANY WILL RECLASSIFY ALL LOANS TO
OTHER PAID-IN CAPITAL.